



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

WORKERS COMPENSATION FUND

of

Murray, Utah

as of

December 31, 2008

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
Period Covered by Examination	1
Examination Procedures Employed	1
SUMMARY OF EXAMINATION FINDINGS	2
SUBSEQUENT EVENTS	3
COMPANY HISTORY	4
General.....	4
Capitalization	5
Dividends to Policyholders	5
CORPORATE RECORDS	6
Conflict of Interest Procedure	6
MANAGEMENT AND CONTROL	6
Affiliated Companies.....	9
Transactions with Affiliates.....	10
FIDELITY BOND AND OTHER INSURANCE	10
PENSION AND INSURANCE PLANS	11
Underwriting	11
TERRITORY AND PLAN OF OPERATION	12
GROWTH OF THE COMPANY	13
REINSURANCE	14
Assumed:.....	14
Ceded:	14
ACCOUNTS AND RECORDS	14
STATUTORY DEPOSITS	15
FINANCIAL STATEMENTS	16
BALANCE SHEET (ASSETS)	17
BALANCE SHEET (LIABILITIES)	18
STATEMENT OF INCOME	19
SURPLUS RECONCILIATION.....	20
NOTES TO FINANCIAL STATEMENTS	21
ACKNOWLEDGEMENT	21

May 6, 2010

Honorable Neal T. Gooch, Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114-6901

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

WORKERS COMPENSATION FUND
of
Murray, Utah

hereinafter referred to in this report as the Company or WCF, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

Workers Compensation Fund was last examined as of December 31, 2004. The current examination included a review to determine the status of recommendations noted in the previous Report of Examination of Workers Compensation Fund dated August 3, 2005. All comments and recommendations reported in the previous examination reports were satisfactorily addressed.

The current examination covers the period from January 1, 2005 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, and insurance rules promulgated by the Utah Insurance Department (Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Company retained the services of a certified public accounting firm, Ernst & Young, LLP, to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, work performed by external audit functions, and work performed by internal audit. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk, examination procedures were reduced where considered appropriate.

The examiners relied on an analysis of indicated loss and loss adjustment reserves report prepared by the Department's contracted actuarial consulting firm, Taylor-Walker & Associates, Inc.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination working papers.

SUMMARY OF EXAMINATION FINDINGS

Underwriting Rating Tiers

- 1.) According to the information provided for the Underwriting sample of forty, it was noted in eight of the samples that the criteria used for underwriting tier deviations was applied using subjective factors and underwriter expertise rather than underwriting rules that are solely based on clear, objective criteria. This appears to not comply with of Utah Code Annotated (U.C.A.) § 31A-19a-214-1 parts (a) and (b). That Code section requires that tiered rating programs "be based, to the extent feasible, upon mutually exclusive underwriting rules per tier" and on clear objective criteria that would lead to a logical distinguishing of potential risk." The Company maintains the "to the extent feasible" language in the statute inherently recognizes this, but it is working to assure that subjectivity is minimized and clear, objective criteria are maximized.
- 2.) All of the forty samples reviewed by the examination noted the Company documented tier deviations using a form other than that which was filed as supporting documentation with the Department, for approval of rating tiers, which does not comply with U.C.A. § 31A-19a-214-1(c).

Recommendation:

We recommend the Company strive for mutually exclusive underwriting rules per tier. Such rules should be consistently applied in an objective manner and clearly documented. The Company should use the approved forms filed to provide supporting documentation of rating tiers, or file amended documentation for approval.

Worker's Compensation Coverage Waivers (WCCW)

- 3.) Fees collected for Workers Compensation Coverage Waivers (WCCW) were reported in the annual statement as premiums earned, which is not in accordance with the 2008 Property & Casualty Annual Statement Instructions. The amount reported in premiums earned during the exam period (1/1/05 to 12/31/08) is \$638,350. This amount is not material; however, the Company should follow annual statement instructions.

Recommendation:

We recommend the Company properly report WCCW according to the Annual Statement Instructions, by excluding the \$50 fees received for the Worker's Compensation Coverage Waivers (WCCW) from the Statement of Income, Line 1- Premiums Earned amount. These fees should be reported as miscellaneous income.

Average Weekly Wage (AWW) and 3-day Exclusion calculations

- 4.) Samples of claims and claim quality reviews were reviewed during the examination. There were errors in the calculation of the 3-day exclusion and the average weekly wage as noted by the Company's internal auditor and also discovered by the examination.

Recommendation:

We recommend the Company continue to provide training to its claims adjusters to perform internal quality reviews to assure the Average Weekly Wage and 3-day Exclusion are calculated in accordance with U.C.A. § 34A-2-409 (Average weekly wage) and U.C.A. § 34A-2-408 (Compensation -- None for first three days after injury unless disability extended).

SUBSEQUENT EVENTS

Effective June 30, 2009, Ruth Lybbert resigned from the board of directors and Investment and Audit Committees. She was replaced by Kimberly Hood.

The Company owns 100% of Univantage Insurance Solutions, Inc. Univantage Insurance Solutions (UIS) is a managing general agency that focuses on employee practices liability insurance. UIS was organized under the laws of the state of Utah on October 13, 2009, and it began operations in 2010. During 2009, WCF invested \$500,000 in UIS.

The Company has invested in the construction of a new home office in Sandy, Utah. The Company is expected to relocate to this building in July 2010.

COMPANY HISTORY

General

In 1917, the Utah State legislature adopted the Utah Workmen's Compensation Act, which required employers to provide workers' compensation insurance benefits. The employers were allowed to provide the benefits through self-insurance, private insurance, or insurance through the Utah State Insurance Fund, the Company's predecessor, which was established as a division of the newly created Industrial Commission. The Utah State Insurance Fund had the responsibility of providing workers' compensation coverage to Utah domiciled employers at the least possible cost and to provide prompt, professional service for its policyholders and their injured employees.

Legislation in 1988 and 1990 authorized the Company to operate as a non-profit business enterprise, and pursuant to U.C.A. § 31A-1-105; the Company was brought under regulation of the Department in 1993. U.C.A. § 31A-33-102 created the Company as a nonprofit, quasi-public corporation. On April 6, 1994, the Department issued a certificate of authority authorizing the Company to insure workers' compensation risks in the state of Utah.

As the result of a lawsuit filed by the Company in 2004, the Third Judicial District Court determined the state of Utah does not have an ownership interest in the Company other than as a policyholder. The state of Utah appealed the court's decision to the Utah Supreme Court. On August 23, 2005, the Utah Supreme Court affirmed the district court's decision that the state of Utah has no ownership interest in the Company or its assets other than as a policyholder.

Advantage Workers Compensation Insurance Company (AWCIC - an Indiana Domestic insurer) underwent a re-organization of ownership control during 2004. In 2004, WCF placed the shares of Advantage stock in a voting trust administered by the National Bank of Indianapolis (Trustee) in order to resolve issues of state government control over the company. As a result of this transfer of ownership, WCF has no voting rights under the terms of the voting trust agreement. Voting rights are vested in the Trustee who must vote as directed by a defined group of policyholders. In addition, as a consequence of this transfer of control, Advantage is no longer a subsidiary or an affiliate of WCF; however, WCF holds the sole economic interest in the company. WCF's investment in Advantage is accounted for as unaffiliated common stock on its balance sheet. WCF uses Advantage to provide workers' compensation insurance for out-of-state operations of Utah domiciled businesses.

The Company's articles of incorporation and by-laws were adopted on March 29, 1994, and April 7, 1994, respectively. No amendments to the articles of incorporation were made during this examination period. Amended and Restated Bylaws were filed with the Department in December, 2007. The following changes were made to the bylaws:

- To provide for the circumstance in which the state of Utah is no longer insured by the Company, a provision was added wherein the Governor, with consent of the Senate, shall appoint a public director who shall be: a) An owner, officer or employee of a policyholder that has been insured by the Corporation for at least one year before appointment of a

director representing such policyholder and has previous experience in the actuarial profession, accounting, investments, risk management, occupational safety, casualty insurance or the legal profession; or b) The Director of the Governor's Office of Economic Development.

- At the time of appointment or reappointment, the Governor shall adjust the length of terms of the directors to ensure that no more than two terms expire in a calendar year.
- The amendment also clarified the right of directors to be reimbursed for reasonable expenses incurred in the performance of their official duties including but not limited to meeting attendance and preparation. Further, directors may receive compensation for performance of those official duties. Such compensation is subject to maximums. Reimbursement of reasonable expenses and payment of compensation are subject to board determination within the parameters of the Bylaws and the underlying provision of the Utah Code.
- The officers of the corporation were expanded to include a Chief Executive Officer, President, Chief Operating Officer, an Executive Vice President and one or more Senior Vice Presidents, a Secretary and a Chief Financial Officer. As of December 31, 2008, the Company did not have a Chief Operating Officer or an Executive Vice President.
- In the event the Chief Executive Officer can not perform his duties, the President, Chief Operating Officer or the Executive Vice President, in that order, shall perform the duties.

Capitalization

In 1917, the state of Utah Treasury appropriated \$40,000 for the Company's original capitalization. The appropriation was repaid during the 1920s. The Company is required to maintain a minimum permanent surplus of \$300,000, and it is required by U.C.A. 31A-17-Part 6 to meet risk-based capital levels.

Dividends to Policyholders

Dividends to policyholders, as reflected in the Company's statement of income were as follows:

Period	Amount
2005	\$ 19,500,624
2006	\$ 41,812,293
2007	\$ 46,708,725
2008	\$ 14,766,753

CORPORATE RECORDS

The board of directors and committee meeting minutes indicated the board of directors and its committees adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior examination report to each member of the board of directors.

Conflict of Interest Procedure

In compliance with Article III (a)(15) of the Company's by-laws, procedures for disclosure of any material conflict of interest have been established. The procedures provide that each employee will receive a copy of the policy statement, review it annually, and disclose all situations, which may give rise to a conflict of interest. Additionally, directors, officers and key employees are requested to complete annual conflict of interest disclosure questionnaires.

During the period covered by the examination, directors and officers of the Company completed conflict of interest statements annually. No exceptions were noted.

MANAGEMENT AND CONTROL

Ultimate control of the Company resides with its board of directors. U.C.A. § 31A-33-106 establishes the number of directors at seven, consisting of the executive director of the Department of Administrative Services or designee; the chief executive officer of the Company; and five directors appointed by the Governor, with the advice and consent of the Senate. Three of the appointed directors are required to be owners, officers or employees of policyholders, other than the state of Utah, that have been insured by the Company for at least one year before their appointment. Two of the directors are required to be appointed from the public in general. Board member appointment is in accordance with the public director selection provisions for mutual insurance companies under U.C.A. § 31A-5-409.

Each director's term of office is four years beginning July 1 of the year of appointment. At the time of appointment or reappointment, the Governor shall adjust the length of terms of the Directors to ensure that no more than two terms expire in a calendar year.

The following persons served as directors of the Company as of December 31, 2008:

<u>Name – Location</u>	<u>Term Expiration</u>	<u>Capacity</u>	<u>Principal Affiliation</u>
Robert Day Myrick, Chair Salt Lake City, Utah	2010	Public	Retired Formerly President and Chief Executive Officer Morgan Stanley Dean Witter Bank
Judd Arthur Turner, Vice Chair Salt Lake City, Utah	2010	Policyholder	Vice President Fred A. Moreton & Co.
Dallas Hansen Bradford Audit Committee Chair Bountiful, Utah	2010	Public	Retired Formerly Managing Partner of Salt Lake City Office Arthur Andersen LLP
Ruth Lybbert Salt Lake City, Utah	2012	Policyholder	Attorney Dewsnup, King & Olsen
Roger Alan Livingston Salt Lake City, Utah	Statutory	Office	Director of Risk Management Utah Department of Administrative Services
John Christian Eberhardt Salt Lake City, Utah	2012	Policyholder	Owner Redman Van & Storage
Ray David Pickup* Salt Lake City, Utah	Statutory	Office	President, Chief Executive Officer Workers Compensation Fund

* During 2008, the Company's Chief Executive Officer, Lane Summerhays, retired and was succeeded by the Company's Chief Operating Officer, Ray Pickup.

The following directors constituted the membership of the Company's committees at the examination date:

Investment Committee

Robert Myrick, Chair
Dallas Bradford
Ruth Lybbert
Ray Pickup

Marketing Committee

Judd Turner, Chair
Roger Livingston
John Eberhardt
Ray Pickup

Audit Committee

Dallas Bradford, Chair
Ruth Lybbert, Vice Chair
Roger Livingston
Judd Turner

Compensation, Benefits and
Human Resources Committee

Judd Turner, Chair
Dallas Bradford
Robert Myrick
Ray Pickup

Officers elected by the board of directors and serving at the examination date follow:

Officer

Ray D. Pickup
Dennis V. Lloyd

Scott E. Westra

Dan M. Hair

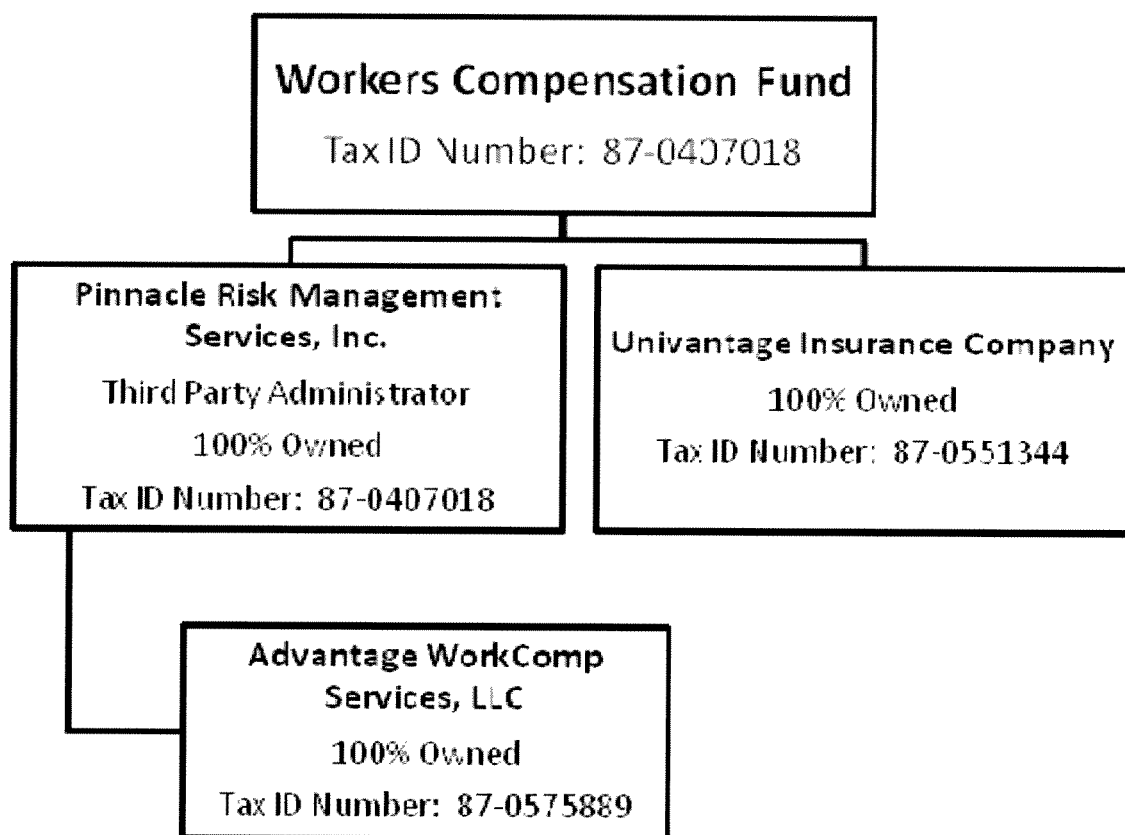
Peggy J. Larsen
Debi A. Mofford
Robert H. Short

Office

President and Chief Executive Officer
Senior Vice President, General Counsel, and Corporate Secretary
Senior Vice President, Chief Financial Officer, and Corporate Treasurer
Senior Vice President, Chief Underwriting and Safety Officer
Senior Vice President, Chief Marketing Officer
Senior Vice President, Chief Information Officer
Senior Vice President, Chief Claims Officer

Affiliated Companies

The Company is the ultimate controlling member of an insurance holding company system. An organizational chart presenting the identities of and interrelationships between the Company and its affiliates on December 31, 2008, follows:



Univantage Insurance Company is a Utah domiciled insurer acquired by the Company on January 8, 1996, for the purpose of expanding its insurance activities to health coverages. However, subsequent to the acquisition date, U.C.A. § 31A-33-103.5 was amended to limit the Company and its subsidiaries to offering only workers' compensation insurance coverage. The subsidiary's insurance operations were dormant and it had no insurance in force. Financial activity of the subsidiary consisted mainly of earnings on its invested assets.

Pinnacle Risk Management Services, Inc. (Pinnacle) is a wholly owned subsidiary that provides third-party administration of workers' compensation claims. Pinnacle provides claims administration services to AWCIC and WCF for claims incurred in states other than Utah by employees of WCF's Utah-based policyholders.

Advantage WorkComp Services, Inc. provides bill review, utilization review, medical case management and other services to WCF, clients of Pinnacle and to other workers'

compensation insurers. Effective January 1, 2005, WCF transferred ownership of Advantage WorkComp Services to Pinnacle as a capital contribution.

Transactions with Affiliates

Effective June 15, 1998, the Company, Pinnacle, Univantage Insurance Company, and Advantage WorkComp Services, Inc. entered into an agreement for cooperative and joint use of personnel, property, equipment, and services. The Company agreed to provide for its subsidiaries; personnel, property, equipment, and services to enable the subsidiaries to conduct business and other corporate functions. Pinnacle agreed to provide personnel, property, equipment, and services to the Company to enable the Company to conduct its insurance business and other corporate functions. The agreement requires the amount charged be fair, reasonable, equitable, and in accordance with the prevailing market rates.

Effective January 1, 2000, the Company entered into a Claims Service Agreement with Pinnacle. Pinnacle agreed to represent and act for the Company in matters pertaining to the liability of the Company for employee claims under the Workers' Compensation Act, or similar law, in the state of Utah.

Effective April 1, 2000, the Company entered into a Service Agreement with Advantage WorkComp Services, Inc. Advantage WorkComp Services, Inc. agreed to provide consultative services, including workers' compensation risk analysis, loss prevention, and claims management to the Company's subscribing employers.

Effective July 1, 2002, the Company entered into a Claims Service Agreement with Pinnacle. Pinnacle agreed to adjust claims for Company policyholders' out of state coverage written by Alea North America Insurance Company.

Effective July 1, 2004, the Company entered into an Administrative Service Agreement with Advantage Workers Compensation Insurance Company. Under the terms of the agreement, WCF agrees to provide Advantage the personnel, support and facilities to assist Advantage with its operations. Services include: financial, accounting and actuarial services; underwriting services; claims services; legal services; computer/technical services; and office services.

Effective January 1, 2006, the Company entered into a Service Agreement with Advantage WorkComp Services, Inc. Advantage agrees to provide the Company and their subscribing employers with consultative services including worker's compensation risk analysis, loss prevention, claims management and premium audit.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National NAIC for an insurer of the Company's size and premium volume is not less than \$1,500,000. As of December 31, 2008, the Company had sufficient fidelity bond coverage subject to a loss limit of \$20,000,000.

The Company was a named insured under various policies providing property, building flood and earthquake and automobile coverage. In addition, the Company carried general and excess liability coverage and specific coverage for directors and officers' liability.

PENSION AND INSURANCE PLANS

The Company is a voluntary participant in the State and School Contributory and Noncontributory Retirement Systems. The systems are administered by the state of Utah and are multi-employer cost sharing defined benefit plans. Contributions to the retirement systems are required by statute. Covered employees in the contributory system are required to contribute 6 percent of their salary and the Company is required to contribute 9.73 percent of their salary. No employee contributions are allowed in the noncontributory system. The Company is required to contribute 14.22 percent of salary to the noncontributory system.

Employees participating in the contributory and noncontributory retirement plans are also eligible to participate in a 401(K) salary deferral program. The Company contributes 1.5 percent of the employee's gross salary to the salary deferral program, and the employee may elect to contribute additional amounts.

Workers Compensation Fund administers an unfunded retirement plan for a former executive. Provision was made in the financial statements for the Company's obligations under the agreement.

The Company offers its employees a variety of medical and dental options. The Company shares in the cost of the coverage. The Company also provides workers' compensation insurance and basic group term life insurance at no cost to employees. Optional benefits included additional coverage of life, accidental death and dismemberment for the employee and/or their dependents.

INSURANCE PRODUCTS AND RELATED PRACTICES

Underwriting

Prior to 1996, the Company used its own policy contract and endorsement forms. Policies issued after January 31, 1996, adopted the National Council on Compensation Insurance (NCCI) forms. The Company filed and used its own policy applications, schedules and endorsements to supplement the NCCI forms, when it was considered appropriate and necessary. As of December 31, 2008, the Company's risk retention was \$20,000,000.

All policies currently issued are for a specified policy period with effective and expiration dates shown on the policy information page. Policy periods are generally one year unless a short-term policy is required for a specific reason. Estimated premiums for the policy period are based on estimated payroll with the final premium determined by audit after expiration of the policy.

U.C.A. § 31A-22-1001 obligates the Company to write all workers' compensation insurance for which an application is received. Consequently, underwriting was essentially

limited to proper classification of employees, selection of a premium payment plan, and calculation of premiums. NCCI occupational codes were used to assign employee classifications.

The Company had three premium rate tiers, preferred, standard, and non-standard. Specific eligibility provisions applied to preferred and non-standard rates. All risks not qualifying for preferred or non-standard rates were written at standard rates. According to the information provided for the Underwriting sample of forty, it was noted in eight of the samples that the criteria used for underwriting tier deviations was applied using subjective factors and underwriter expertise rather than underwriting rules that are solely based on clear, objective criteria. This appears to not comply with of Utah Code Annotated (U.C.A.) § 31A-19a-214-1 parts (a) and (b). That Code section requires that tiered rating programs “be based, to the extent feasible, upon mutually exclusive underwriting rules per tier” and on clear objective criteria that would lead to a logical distinguishing of potential risk.” The Company maintains the “to the extent feasible” language in the statute inherently recognizes this, but it is working to assure that subjectivity is minimized and clear, objective criteria are maximized.

TERRITORY AND PLAN OF OPERATION

The Company was created by U.C.A. § 31A-33, to insure Utah employers against liability for compensation based on job-related accidental injuries and occupational diseases and to assure payment of this compensation to Utah employees who are entitled to it. In accordance with U.C.A. § 31A-33-103.5(2), the Company may only offer:

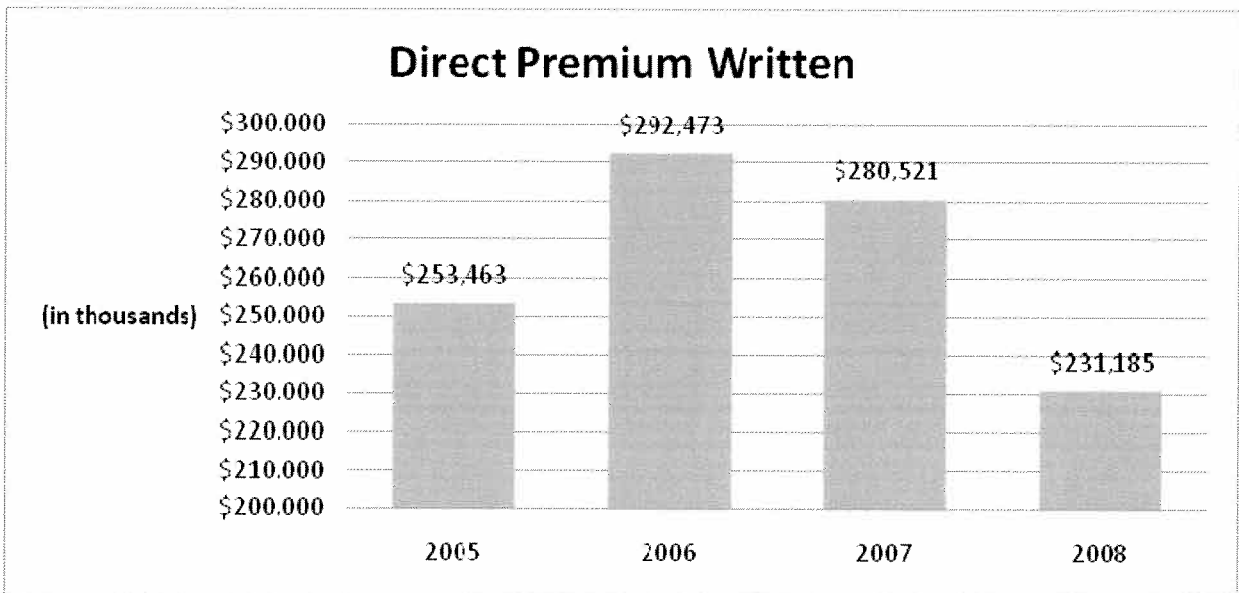
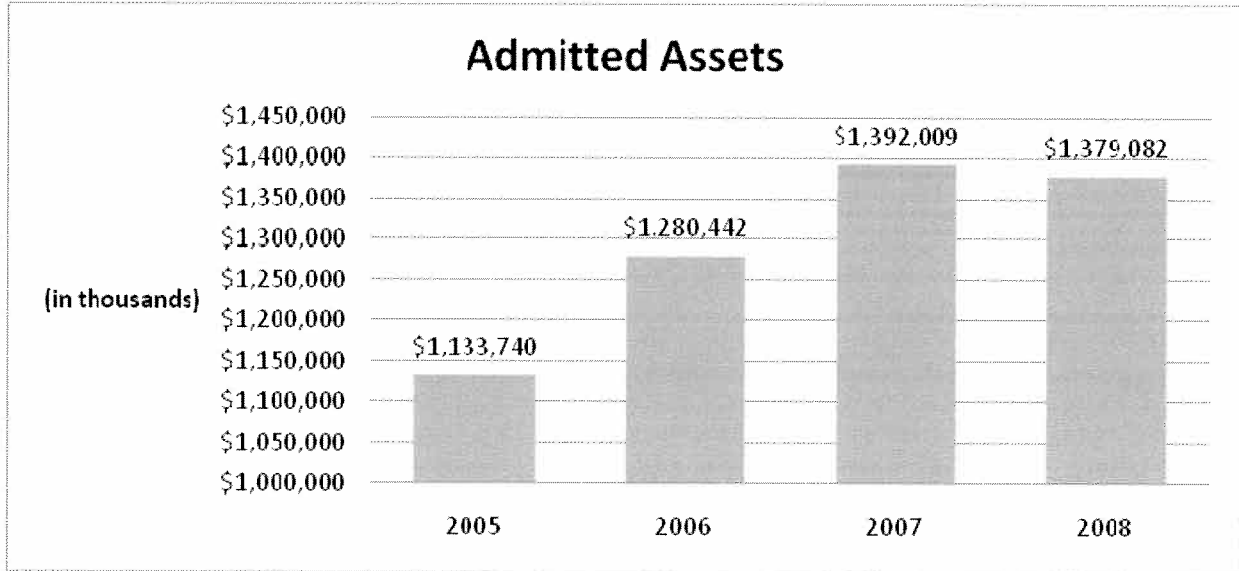
- (1) workers’ compensation insurance in Utah;
- (2) workers’ compensation insurance in a state other than Utah to the extent necessary to accomplish its purpose under U.C.A. § 31A-33-102(1)(b); and to provide workers’ compensation or occupational disease insurance coverage to Utah employers and their employees engaged in interstate commerce; and
- (3) workers’ compensation products and services in Utah and other states.

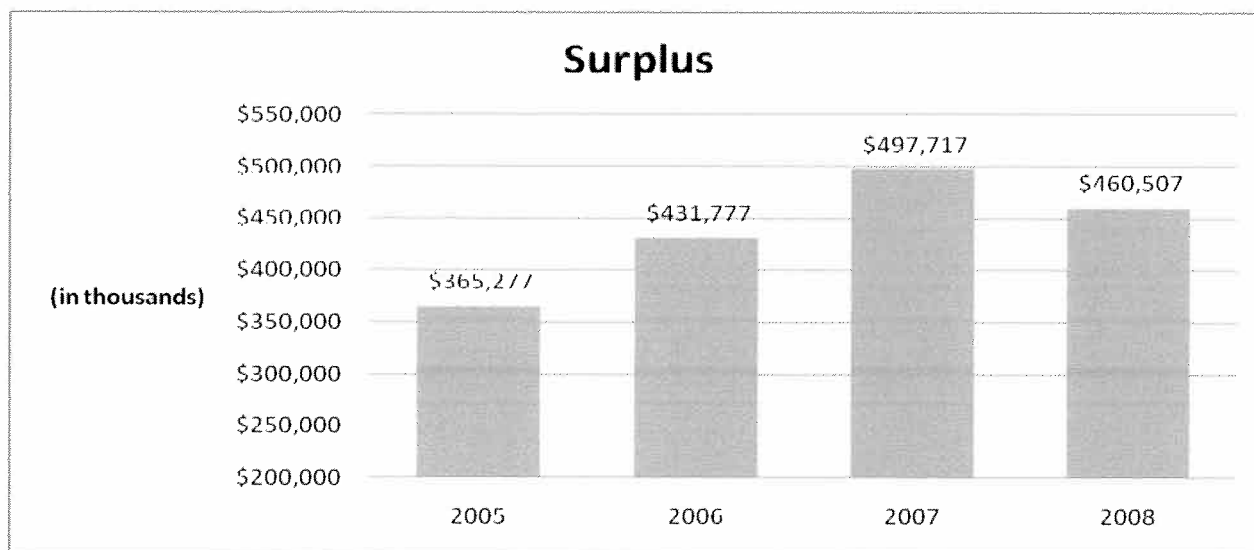
The Company is only authorized to transact workers’ compensation insurance within the state of Utah. U.C.A. § 31A-22-1001 requires the Company to write all workers’ compensation insurance for which application is made to the Company. Under U.C.A. § 34A-2-203, beginning July 1, 2007, the state shall secure the payment of workers’ compensation benefits for its employees.

The Company maintained approximately a 52 percent market share of all workers’ compensation insurance written in the state of Utah. Its products were marketed by approximately 22 salaried employee/agents and about 230 appointed independent insurance agencies, comprised of around 200 licensed agents. The marketing vice president supervised the employee/agents and was the point of contact between the Company and its independent agents.

GROWTH OF THE COMPANY

The following graphs show the growth during the exam period for Workers Compensation Fund. The graphs present total admitted assets, direct premium written and surplus for the four year period ending December 31, 2008.





REINSURANCE

Assumed:

During 2008, the Company contracted with both Advantage Workers Compensation Insurance Company (AWCIC) and Old Republic Insurance Company for out-of-state operations of Utah businesses. WCF assumes the majority of risk associated with these arrangements.

Effective January 1, 2004, the Company reinsures AWCIC for 100% of claim costs on policies it assumes from AWCIC. In 2008, the Company assumed \$9.2 million in premiums from AWCIC.

Effective January 1, 2006, the agreement with Old Republic Insurance Company states that Old Republic underwrites and issues worker's compensation and employer's liability insurance in states other than Utah for those Utah policyholders that have operations outside of Utah. The Company assumes 100% of the risk of policies written on behalf of the Company for out-of-state policyholders. In 2008, the Company assumed \$3.5 million in premiums from Old Republic.

Ceded:

The Company's reinsurance program, effective for calendar year 2008, provided per occurrence reinsurance coverage of \$80 million excess \$20 million, with a second occurrence drop down retention of \$5 million to protect against catastrophic losses.

ACCOUNTS AND RECORDS

The Company's computer systems operate on mainframe, mid range and server based hardware. The policy administration, claims administration, billing and accounts payable are proprietary applications that were developed internally. The general ledger is an in-house

maintained application. All systems are fully integrated. All major accounting records are maintained electronically. General ledgers, subsidiary ledgers and journals are not maintained in hard copy form. Trial balances and summary reports are extracted from a database.

An examination trial balance, as of December 31, 2008, was prepared from the Company's electronic trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary. Accounts and records deficiencies or concerns identified in the examination included the following:

The Company had investments held by a custodian pursuant to a written custodial agreement dated April 19, 1995. As of December 31, 2008, this custodial agreement was not in compliance with Utah Administrative Code (U.A.C.) Rule 590-178 requiring certain provisions for the protection of Utah insurers and policyholders. A revised custodial agreement was subsequently executed in January 2010 and written Board approval was obtained. The reported investments were considered admitted assets at December 31, 2008, by subsequent revision of the custodial agreement, for examination purposes.

The Company processes Worker's Compensation Coverage Waivers (WCCW) for employers who request the statutory exclusion. These waivers provide no coverage and are designed for independent contractors who have no employees and who do not desire coverage. To acquire this waiver, an endorsement must be completed and signed and a \$50 fee must be paid for administering the waiver. The \$50 fee covers the administrative expenses for the Company to notify the state and NCCI that the non-employee business has opted out. Throughout the exam period, the Company has been including the waiver fee amounts in the annual statement as premiums earned. As the waivers are not policies and no coverage is provided, they should not be reported as premiums earned.

Samples of claims and claim quality reviews were reviewed during the examination. There were errors noted in the calculation of the 3-day exclusion and the average weekly wage.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to its minimum permanent surplus of \$300,000. The examination confirmed the Company maintained a statutory deposit with the Department consisting of U.S. Treasury Notes with a statement value of \$345,317 and a market value of \$437,695, which was adequate to cover the required deposit of \$300,000.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2008, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2008

STATEMENT OF REVENUE AND EXPENSES for the Year Ended
December 31, 2008

RECONCILIATION OF CAPITAL AND SURPLUS – 2005 through 2008

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

WORKERS COMPENSATION FUND
BALANCE SHEET (ASSETS)
As of December 31, 2008

ADMITTED ASSETS

	<u>Amount</u>
Bonds	\$1,018,056,268
Preferred stocks	5,000,000
Common stocks	204,691,977
Mortgage loans on real estate – first liens	44,952,450
Real estate – Properties occupied by the Company	18,074,934
Real estate – Properties held for the production of income	5,599,642
Cash and short-term investments	38,525,239
Other invested assets	8,395,725
Receivable for securities	1,242,955
Investment income due and accrued	15,324,054
Uncollected premiums and agents' balances in course of collection	7,807,010
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,046,698
Amounts recoverable from reinsurers	66,824
Funds held by or deposited with reinsured companies	1,042,273
Electronic data processing equipment	1,019,303
Receivable from parent, subsidiary and affiliates	44,405
Other assets	2,192,076
Total assets	<u><u>\$1,379,081,833</u></u>

WORKERS COMPENSATION FUND
BALANCE SHEET (LIABILITIES)
As of December 31, 2008

	<u>Amount</u>
Losses	\$ 774,609,481
Loss adjustment expenses	88,085,496
Commissions payable, contingent commissions and other similar charges	809,661
Other expenses, excluding taxes, licenses and fees	8,180,558
Taxes, licenses and fees due or accrued, excluding federal income taxes	304,369
Unearned premiums	37,971,631
Advance premiums	2,309,707
Ceded reinsurance premiums payable	(183,785)
Amounts withheld or retained by company for account of others	2,527,029
Remittances and items not allocated	27,000
Payable for securities	3,625,412
Other liabilities	308,492
Total liabilities	<u>918,575,051</u>
Unassigned funds (surplus)	<u>460,506,782</u>
Surplus as regards policyholders	<u>460,506,782</u>
Total liabilities, surplus and other funds	<u><u>\$ 1,379,081,833</u></u>

WORKERS COMPENSATION FUND
STATEMENT OF INCOME
For the Year Ended December 31, 2008

	<u>Amount</u>
Underwriting income:	
Premiums earned	\$ 244,844,927
Deductions:	
Losses incurred	147,075,184
Loss adjustment expenses incurred	29,499,365
Other underwriting expenses incurred	55,434,539
Total underwriting deductions	<u>232,009,068</u>
Net underwriting gain or (loss)	12,835,839
Investment income:	
Net investment income earned	59,444,574
Net realized capital gains or (losses)	<u>(75,397,179)</u>
Net investment gain or (loss)	<u>(15,952,605)</u>
Other income:	
Net gain (loss) from agents' or premium balances charged off	(1,813,748)
Aggregate write-ins for miscellaneous income -- other income	87,484
Total other income	<u>(1,726,264)</u>
Net income before dividends to policyholders	(4,843,030)
Dividends to policyholders	<u>14,766,753</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	(19,609,783)
Federal and foreign income taxes incurred	<u>-</u>
Net income	<u><u>\$ (19,609,783)</u></u>

WORKERS COMPENSATION FUND
SURPLUS RECONCILIATION
January 1, 2005 through December 31, 2008

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Surplus prior year	\$326,651,105	\$ 365,277,208	\$ 431,776,900	\$ 497,717,369
Net income (loss)	43,994,992	52,905,883	83,762,504	(19,609,783)
Change in net unrealized capital gains (losses)	(1,902,867)	10,013,820	(15,777,338)	(20,410,809)
Change in nonadmitted assets	<u>(3,466,022)</u>	<u>3,579,989</u>	<u>(2,044,697)</u>	<u>2,810,005</u>
Change in surplus as regards policyholders for the year	<u>38,626,103</u>	<u>66,499,692</u>	<u>65,940,469</u>	<u>(37,210,587)</u>
Surplus, December 31, current year	<u>\$ 365,277,208</u>	<u>\$ 431,776,900</u>	<u>\$ 497,717,369</u>	<u>\$ 460,506,782</u>

NOTES TO FINANCIAL STATEMENTS

No adverse findings, material changes in the financial statements, or other significant regulatory information was disclosed by the examination.

No examination adjustments were made to the Company's unassigned surplus of \$460,506,782. U.C.A. § 31A-5-211 requires the Company to maintain permanent surplus in the amount of \$300,000. In accordance with U.C.A. 31A-17, Part VI, the Company's total adjusted capital was \$460.5 million or approximately 9.5 times its authorized control level Risk-Based Capital (RBC) of \$48.6 million.

ACKNOWLEDGEMENT

Glenn Taylor, ACAS, MAAA, of the actuarial firm of Taylor-Walker & Associates performed the actuarial phases of the examination. In addition to the undersigned, Clarissa Crisp, AFE and Hermoliva Abejar, participated in the examination representing the Department. Jacob W. Garn, CPA, MBA, CFE, Chief Examiner and Colette Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner supervised the examination. Participants in the examination from RSM McGladrey were Jan M. Moenck, CFE, LeeAnne Creevy, CISA and Alan Gutierrez, CISA. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'S. Carroll', with a long horizontal flourish extending to the right.

Susan L. Carroll, CFE
Examiner-in-Charge
RSM McGladrey, Inc.
Representing the Utah Insurance Department